

CFO's Message



As we fulfill our mission of protecting human health and the environment, EPA is committed to delivering the best results to the American people by managing government resources effectively and efficiently. I am proud of the significant progress EPA has made towards achieving the long-term goals that support our mission. I would like to thank all of our partners and stakeholders—states, tribes, businesses, local governments, and other federal agencies—for their contribution to these FY 2006 results, and I look forward to their continued collaboration as we work to protect and restore the nation's air, water, and land.

This *Performance and Accountability Report* (PAR) discusses our achievements in FY 2006, reviews our progress toward the goals and objectives established in our 2003–2008 *Strategic Plan*, and also lays out our plans for addressing

key challenges and making future progress. We have redesigned this year's PAR to provide more concise, executive-level summaries of results and to better integrate detailed resource information.

PERFORMANCE

The performance section of this report discusses the relationship between EPA's programmatic activities and the environmental results achieved in FY 2006, as articulated in the Agency's 80 annual performance goals. These FY 2006 annual performance goals were established in the Agency's FY 2006 *Annual Plan* as required by the Government Performance and Results Act (GPRA) and further developed through the Office of Management and Budget's Program Assessment Rating Tool (PART) evaluations.

EPA strives to provide accurate, timely data for all performance goals and measures. While in

many cases data for FY 2006 will not be available until 2007, we have provided data that are now available for prior years. As required, EPA's FY 2006 PAR includes performance trend data for FY 2003 through FY 2006, encompassing all of the Agency's most recent performance results.

FINANCIAL MANAGEMENT

As in the past 6 years, the Agency's Office of the Inspector General (OIG) issued EPA an unqualified opinion in its FY 2006 Financial Statements Audit. We submitted corrective action plans for 9 reportable conditions and 1 non-compliance issue within 10 months of the OIG's FY 2005 Financial Statements Audit. We are committed to correcting audit recommendations in a timely manner and have already begun corrective actions to address identified issues for FY 2006.

PRESIDENT'S MANAGEMENT AGENDA AND OTHER ACHIEVEMENTS

We are making steady progress in meeting PMA goals, as demonstrated by green status scores for our accomplishments in the areas of Improved Financial Performance and Eliminating Improper Payments and a green progress score for Budget and Performance Integration. We continue to improve our ability to meet and exceed government-wide financial performance metrics—for which EPA now has green scores on seven of nine measures.

In FY 2006, EPA broadened its management integrity program to assess the effectiveness of the Agency's internal controls over financial reporting, as required by OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting." The assessment uncovered no material weaknesses and found the Agency's internal control mechanisms were operating effectively. In FY 2006, EPA resolved 7 of 11 reportable conditions and expects to resolve the remaining 4 by January 2007. The next cycle of internal control assessments will begin with a follow-up review of the effectiveness of the corrective actions for all reportable conditions and continue with an assessment of the financial processes selected for review in FY 2007.

Like other federal agencies participating in the Hurricane Katrina response and relief effort, in FY 2006 EPA implemented a stewardship plan, documenting our internal controls to mitigate any waste, fraud, or mismanagement. Our Katrina Stewardship Plan has afforded us a high level of confidence in our

financial management activities and will inform our decisions in the event of future emergencies.

We have consolidated financial functions from 14 regional and headquarters financial centers to 4 Centers of Excellence. In FY 2006, the Agency completed consolidation of travel operations and vendor payment operations; the remaining financial consolidations, grants and accounts receivable, will be completed within the first half of FY 2007. When complete, our consolidation effort will produce a net savings of more than \$3 million annually.

As part of OMB's E-Gov initiative, we completed the final steps in migrating our Payroll Processing function to the Department of Defense's "Defense Civilian Pay System—DCPS." Many stakeholders, including OMB, the Office of Personnel Management, and the Department of Defense were responsible for making this migration a success.

LOOKING AHEAD

EPA's significant achievements during our first 35 years have laid the groundwork for addressing more complex emerging environmental issues in the years to come. In FY 2006, as we prepared our 2006–2011 *Strategic Plan*, we considered the changing face of environmental protection. We sharpened our focus on achieving measurable environmental results, initiated a variety of place-based efforts to address regional and local issues, and considered future potential threats to human health and the environment to help us establish clear priorities and prepare ourselves to address them.

Building a business infrastructure based on modern technology is another key element of EPA's vision for ensuring effective resource management and supporting the Agency's environmental mission in the future. We have made it a top priority to develop a comprehensive financial management system that will streamline financial workflow; transform administrative services; and further integrate programmatic, performance and financial information. We are also developing an Administrative Data Warehouse to reduce the need for redundant management and data sources among the various EPA offices and ensure the most efficient and cost-effective information exchange.

While we have made progress towards our strategic goals in FY 2006, we recognize the challenges that lie ahead. Like other agencies, EPA must continue to search for efficiencies, management improvements, and more effective stewardship of limited resources. We are constantly working to accomplish our key goals using innovative, collaborative methods, and we look to our partners and stakeholders for their continued participation and support as we work to achieve our mission to protect human health and the environment.

In closing, I would like to thank EPA's committed, hard-working staff all over the country who contributed to this report and made our progress in FY 2006 possible.



Lyons Gray
Chief Financial Officer